GENERAL ANILINE & FILM CORPORATION

★

Annual Report

1942

GENERAL ANILINE & FILM CORPORATION

★

Annual Report

1942

230 PARK AVENUE • NEW YORK CITY

GENERAL ANILINE & FILM CORPORATION

DIRECTORS

ROBERT E. McCONNELL, *Chairman*
GEORGE M. MOFFETT
DR. E. C. WILLIAMS
DR. ROBERT E. WILSON

OFFICERS

ROBERT E. McCONNELL,
President

DR. JOSEPH S. BATES,
Vice President in Charge of General Aniline Works Division

DR. E. C. WILLIAMS,
Vice President in Charge of Research Division

DR. WILLIAM F. ZIMMERLI,
Vice President in Charge of Market Development Department

W. I. McNEILL,
Vice President and Controller

DAVID B. DYCHE,
Treasurer

FRANCIS A. GIBBONS,
Secretary

EXECUTIVE OFFICES

230 Park Avenue, New York

Transfer Agents

CITY BANK FARMERS TRUST COMPANY
22 William Street, New York

CORPORATION TRUST COMPANY
15 Exchange Place
Jersey City, New Jersey

Registrars

BANK OF THE MANHATTAN COMPANY
40 Wall Street, New York

COMMERCIAL TRUST COMPANY OF NEW JERSEY
15 Exchange Place
Jersey City, New Jersey

GENERAL ANILINE & FILM CORPORATION

Annual Report for 1942

To the Stockholders:

General Aniline & Film Corporation was formerly one of the principal foreign operations of the German chemical trust known as I. G. Farbenindustrie. The Company's products were almost entirely developments of research carried on in Germany and the key to its operation and progress was held by Germans, who determined what it manufactured and sold. It is now controlled by the United States Government as a result of the vesting of stock formerly foreign-held, by the Hon. Leo T. Crowley, Alien Property Custodian of the United States.

On March 16, 1942, the management of the Company was entrusted to a new Board of Directors. This is the first annual report of that Board.

On April 7, 1942, the Hon. Henry Morgenthau, Secretary of the Treasury of the United States, addressed a letter*, approved by Mr. Crowley, to the new President of the Company describing the basic policy by which the Directors should be governed. This letter stated that those chosen to manage the Company should restaff the organization with competent Americans and, after its Americanization, apply the Company's activities and facilities to the fullest extent to the war effort, operating it in all ways in accordance with sound American business methods. The Directors were also advised by Mr. Crowley that it was the Government's policy that the Company should never return to German ownership, German control of operations or German influence.

The Board of Directors of the Company has endeavored to manage its affairs in conformity with these instructions and with the interests of the stockholders as a whole.

Prior to April 7, 1942, government agencies caused the dismissal or suspension of a substantial number of the important employees of the Company, including many of its principal executives, engineers, chemists and key operators. Thus the Board took over the Company sheared not only of its traditional source of research and direction, but also of its executive personnel. There was no time to train successors and therefore it was necessary to fill the vacant positions from the outside. The replacement of these individuals with men of the proper technical abilities and experience during a war period, when the normal scarcity of high calibre personnel is accentuated, became the most difficult undertaking with which the Board was faced.

This organization problem has now been solved and the Americanization of the Company has been successfully completed.

Twice—once in 1917 and again in 1941—this country has been thrust into a World War partly dependent on its enemies for many strategic materials developed from research. In some cases, by fortuitous circumstances and the enterprise of American industry, this country had managed to get from German sources possession of patents and know-how relating to vital chemical processes and products.

The Board considered that this Company should never again have to depend upon sources within Germany or any other foreign country for the technical knowledge necessary

* Quoted on page 11.

for it to supply such basic military products as its plants could be adapted to manufacture. Therefore, it became obvious to the new Board that in order for the Company to serve effectively in the war effort and be of most value to the government, or to survive after the war in its highly technical and competitive field, it would be necessary for the Company to create in this country an integrated research and development organization of at least equal calibre to that of the German chemical trust on which the Company had theretofore depended. Accordingly, the Board decided that the Company must establish an effective research organization, properly equipped and staffed, so that with the necessary protection of an effective patent system, it could fulfill its obligations to the stockholders and the public. Steps taken to fulfill these obligations are described on page 3.

The period of transition in 1942 has necessarily been a trying one for management and employees alike. To the loyalty and efforts of the more than 6,000 men and women who comprise the Company's organization should go full credit for such success as the Company has enjoyed in the past year.

PRODUCTION AND THE WAR EFFORT

The new management faced a double difficulty at the start. Not only was it necessary for a new staff to take over a going concern of a complicated technical nature and keep it up to the former standards of operation, but the change had to be made at a time when it was necessary for the Company, like many other American companies, to convert from a peace-time to a war-time footing. The period of re-staffing coincided almost exactly with the period of conversion.

Despite these complications, the task of converting the Company's activities to war channels has been accomplished and all-time high production records for the Company have been set during the past three months in four out of five of its plants.

The dyestuffs and chemical operations of the Company have been materially improved during the year. The Process Development Department, organized in the latter part of the year, has already made substantial improvements in quality, has increased productive efficiency, and has devised methods of recovering critical spent materials previously wasted. Capacity to produce certain dyestuffs and chemicals particularly needed for the war effort has been increased more than 80% over previous peak output. The required capital expenditures were relatively minor and involved only small amounts of critical materials. While sales of such products are at a new high, demand has not yet equalled the newly demonstrated capacity.

Restrictions on the use of numerous dyestuffs for civilian purposes as well as on the manufacture of certain textiles have adversely affected sales.

The Company has contracted to sell to the War Department its entire output of a certain chemical product for conversion into an important explosive. Large quantities of other special chemicals used by the Army and the Navy are also being furnished. The Company's facilities for the production of Carbonyl Iron Powder, a product of strategic importance, have been operated to capacity and recently have been substantially increased. Under contract with the War Department, the Company has designed a standby plant and has trained a group of Army officers in the operation of the process. The Company has also fabricated in its own shops a substantial quantity of apparatus for the Government's new plant.

The plants engaged in the production of dyestuffs and chemicals include extensive machine shop facilities for ordinary repairs and maintenance. Through close cooperation with the field office of the War Production Board these facilities, normally idle about sixteen hours per day, have been used to relieve bottlenecks in the production of a variety of parts required by other war industries in the locality.

Owing to the increased demand for photographic and X-ray film on the part of the armed services, the War Production Board has established rigid control over the production and distribution of film products. The Company has exerted every effort to make available the largest possible quantity of photographic materials with existing plant and equipment. Production of film products in 1942 was greater than in any previous year and the current rate of production is higher than at any time in the past. Ansco Color film was introduced through sales to the government and certain war industries. Sales of sensitized materials to the government have been at prices substantially below normal levels.

The Camera Works was converted during the year to the manufacture of special war products, in great part non-photographic and largely new to the Company. The dollar value of the products currently resulting from these new operations is nearly double the value of the largest previous peace-time output. In attaining production on such new products, heavy expenses were incurred which were not recovered out of 1942 sales.

Total output of Ozalid products in 1942 was greatly in excess of that of the preceding year. Substantially all the Ozalid machines produced by the Company were required to meet the needs of the government and others holding high priority ratings.

Your Government has directed the Company to apply its activities and facilities to the fullest extent to the war effort. This has been done.

NEW RESEARCH DIVISION

In addition to the problems of personnel and conversion to the war effort treated above, the necessity of creating an effective research organization has been emphasized. To meet this situation the Company has established a Research Division which comprises the Research Laboratory, Market Development Department and Patent Department. This Division will include among its responsibilities the operation of experimental and pilot plants leading to the inauguration of commercial production.

A Central Research Laboratory has been established with an initial staff of approximately 50 scientists of doctorate standing and a total personnel of about 100. The staff includes several men of outstanding research ability from various sections of American industry. In addition, a few leading scientific men from the plants, several of the highest rank, have been transferred to the research laboratories in order that the latter may have the benefit of technical experience developed in actual production. Smaller research groups are being maintained at the various plants with the main functions of bringing new products into commercial production and carrying on researches requiring close association with the operating management.

A Market Development Department has been organized with headquarters in New York, for the purposes of seeking profitable outlets for the products developed by the research laboratories and keeping the research staff informed of the unfilled needs of industry at large.

Owing to the importance of patents to research activities, a Patent Department was established in 1942. The work of this Department is particularly vital because the Company in 1940 acquired a large number of patents most of which are as yet untested and undeveloped. This group of patents, representing some of the most recent foreign achievements, is considered an exceedingly valuable asset, the prompt development of which through further research will comprise a major activity and may be expected to require substantial expenditures. Such development has already resulted in bringing to the point of commercial production a synthetic substitute for mica which is currently a strategic material of great importance. Also several new organic plastics are undergoing semi-commercial trials as substitutes for rubber and as components for use with synthetic rubber.

Certain dyes of special application to the war program and not now obtainable are under investigation and should become quickly available. Rigorous demands of the military services for superior quality film, particularly color film, are stimulating development in this field. Other examples could be cited.

The management recognizes the difficulty of building at this time from the ground up a research organization adequate to the needs of the Company. However, the task is being attacked with vigor.

RESULTS OF OPERATIONS

Results of the Company's operations for the year 1942 as compared with 1941 and 1940 are summarized below:

	1942	1941*	1940*
Net Sales	$43,240,715	$45,644,761	$30,893,202
Cost of sales	25,566,972	25,899,871	18,991,646
Gross Profit on Sales	$17,673,743	$19,744,890	$11,901,556
Selling, administrative and general expenses	8,609,040	9,638,128	7,138,021
Profit from Operations	$ 9,064,703	$10,106,762	$ 4,763,535
Dividends and interest on domestic securities	690,015	1,446,126	1,394,956
Other income	250,061	296,881	266,656
Miscellaneous *deductions*	*394,777*	*345,717*	*232,520*
	$ 9,610,002	$11,504,052	$ 6,192,627
Interest on debentures, including amortization of debenture discount and expense in 1942	1,103,873	1,070,813	1,232,440
	$ 8,506,129	$10,433,239	$ 4,960,187
Profit from sale of securities	411,871	—	—
Dividends on stock of I. G. Chemie	—	450,626	646,521
Net Profit before Taxes and Reserves	$ 8,918,000	$10,883,865	$ 5,606,708
Provision for Federal income and excess profits taxes	5,434,534	5,985,926	1,150,651
Net Profit before Reserves	$ 3,483,466	$ 4,897,939	$ 4,456,057
Reserve for contingencies (1941) and welfare (1940)	—	782,208	350,000
Net Profit	$ 3,483,466	$ 4,115,731	$ 4,106,057
Net Profit per share—Common A Stock	4.75	5.61	5.59
Common B Stock	.475	.561	.559
Provisions for depreciation charged to costs and expenses	$ 1,655,167	$ 1,830,953	$ 1,648,854

* Income accounts for the years 1940 and 1941 have been restated to conform to the classification followed in 1942. Unamortized debenture discount and expense, previously written off, was restored in 1942. Amortization of debenture discount and expense has been charged to income in the amount of $119,602 in 1942. Had amortization of debenture discount and expense been charged to income in 1941 and 1940 earnings in those years would have been reduced by $252,587 and $103,970, respectively.

Net income of $4.75 per share of Common A Stock in 1942 compares with $5.61 and $5.59, respectively, in 1941 and 1940.

Net sales as shown herein have been stated before deduction of commissions paid General Dyestuff Corporation, sales agent, and such commissions have been included in selling expenses. In previous annual reports sales have been shown net of commissions.

Depreciation charged during the year, in the amount of $1,655,167, has been computed at rates allowed for Federal income tax purposes, resulting in a decrease of approximately $336,000 as compared with the amount computed at rates previously in effect. Studies indicate that the rates allowed for tax purposes more nearly reflect the useful life of plant and equipment than the rates employed in prior years.

Under the Sixth Supplemental National Defense Appropriation Act of 1942 (as amended) the Company's government contracts and sub-contracts are subject to renegotiation and any excessive profits found to have been earned will be repayable to the government. The Company has been asked to renegotiate its government contracts and sub-contracts but proceedings have not yet advanced to the point where it is possible to determine the amount, if any, which may have to be repaid.

Sales for the year 1942 decreased $2,404,046 or, 5.3%, from 1941 primarily because the substantial decline in civilian consumption of dyestuffs and photographic products, resulting from war-time restrictions, was not fully offset, during the period of transition under review, by increased military and other governmental demands.

Profit from operations declined $1,042,059 or, 10.3%, from the previous year largely as a result of lower dollar value of sales combined with increased labor and material costs. Both prices and margins of profit on direct sales to the government were generally substantially below those realized from the same or similar products going into civilian consumption. Profits were also adversely affected by heavy expense incurred in attaining production on non-photographic products for military purposes not previously manufactured by the Company.

Dividends and interest on domestic securities were lower in 1942, principally because of a reduction from $800,000 to $500,000 in dividends received from Winthrop Chemical Company and by sale of 153,000 shares of Standard Oil Company (N. J.) common stock, from which company dividends of $406,232 were obtained in 1941. Also no dividends were derived from I. G. Chemie, referred to on page 8 of this report, and none may be expected under current or prospective conditions. Profit of $411,871 resulted principally from the sale of the Standard Oil Company (N. J.) stock.

Federal income and excess profits taxes for the year were provided for in the amount of $5,434,534, or 60.9% of net income before taxes. Excess profits taxes are included in the amount of $4,182,300 and are shown less the post-war credit of $464,700. The credit was utilized in connection with the purchase and retirement during the year of $1,250,000 principal amount of debentures.

COMMENT ON BALANCE SHEET

Current Assets and Current Liabilities

The working capital position of the Company is indicated in the following summary of current assets and current liabilities as of December 31:

Current Assets:	1942	1941	Increase or *Decrease*
Cash and U. S. Government Securities	$ 5,989,140	$10,198,864	*$ 4,209,724*
Receivables, less reserve	5,041,324	3,918,572	1,122,752
Inventories			
Finished goods	7,294,612	5,702,620	1,591,992
Goods in process	6,637,906	4,820,422	1,817,484
Raw materials	4,395,337	4,394,450	887
Supplies, containers and goods in transit	741,953	834,922	*92,969*
Total Inventories	$19,069,808	$15,752,414	$ 3,317,394
Total Current Assets	$30,100,272	$29,869,850	$ 230,422
Current Liabilities:			
Notes payable to bank	$ —	$ 1,500,000	*$ 1,500,000*
Accounts payable and accruals	1,988,667	2,858,938	*870,271*
Provision for Federal income and excess profits taxes (less in 1942 $3,376,128 U. S. Treasury Notes, Tax Series B, including accrued interest)	2,457,975	5,992,883	*3,534,908*
Total Current Liabilities	$ 4,446,642	$10,351,821	*$ 5,905,179*
Net Current Assets	$25,653,630	$19,518,029	$ 6,135,601

Changes in classification of certain items which affect the foregoing comparison are stated below:

1. Cash as of December 31, 1941, includes the amount of $2,546,262 held at that date in the debenture retirement fund. This fund was discontinued in 1942 and the balance therein transferred to the Company's general funds.

2. Marketable securities are now treated as investments and are not included in current assets as of either date shown above. As of December 31, 1941, such marketable securities having a quoted market value of $9,126,276 were classified in the annual report as current assets and were carried at the lower of cost or quoted market value, or $6,843,275. Marketable securities held as of December 31, 1942, having a quoted market value of $3,085,355, were carried in investments at the lower of cost or market, or $2,369,596. Had marketable securities been included in current assets as of each date shown above, the increase in net current assets of $6,135,601 would have been reduced to $1,661,922.

3. Amounts due from the Company's Canadian subsidiary as of December 31, 1942 have likewise been transferred to investments and are not included in current assets as of either date shown above. As of December 31, 1941, the annual report classified the amount of $152,741 due from this subsidiary as a current asset.

4. The uncalled-for balance on the 50% paid stock of I. G. Chemie amounting to $1,660,230 has been removed from current liabilities and treated as a deduction from the carrying value of the investment in that company.

Inventories have been valued at the lower of cost or market and are discussed in more detail in Note I to the financial statements included in this report.

At the close of 1942 current assets were nearly 6.8 times current liabilities and more than 1.4 times the total of current liabilities and funded debt.

During 1942 the Company paid off $1,500,000 of bank loans and retired $1,250,000 principal amount of debentures.

Application of Funds

The increase in net current assets of $6,135,601 resulted from the following provision and application of funds:

Funds provided:		
From operations—		
Net profit for year before deducting income and excess profits taxes	$ 8,918,000	
Add—Charges which required no outlay of funds—		
Depreciation	1,655,167	
Amortization of debenture discount and expense	119,602	$10,692,769
Marketable securities sold (exclusive of profit of $411,871, included above)		4,116,114
		$14,808,883
Application of funds:		
Provision for Federal income and excess profits taxes		$ 5,434,534
Retirement of debentures		1,250,000
Additions to plant and equipment	$ 1,883,295	
Less—Retirements and sales (net)	44,350	1,838,945
Purchase of 1,598.42 shares of Common A Stock for treasury		76,337
Other (net)		73,466
		$ 8,673,282
Increase in net current assets		$ 6,135,601

Sundry Investments

No change occurred during the year in the amount of the Company's sundry investments, listed on page 16. However, in December, 1942, Alba Pharmaceutical Company, Inc., was absorbed by Winthrop Chemical Company. Since the Company owned a 50% interest in each company, the effect of the transaction was to transfer the cost of the investment in Alba to the cost of the investment in Winthrop, increasing the latter from $650,000 to $1,144,009. The Company's investment in 50% of the capital stock of Winthrop represented an equity in net assets of $2,739,657 on December 31, 1942 and in net income for the year 1942 of $663,180, as disclosed by the financial statements of that company.

In March, 1943, the Company sold to Plaskon Company, Incorporated for retirement the 4,000 shares of $6 cumulative preferred stock and the 1,230 shares of 4% cumulative preferred stock held at December 31, 1942 at the redemption price of $543,000 plus accrued dividends. The cost of such stock to the Company was $425,000. Meetings of stockholders of Libbey-Owens-Ford Glass Company and Plaskon Company, Incorporated, have been called for April 14 and 15, respectively, to vote on a proposed merger of the two companies. If the merger is consummated as planned, the Company will receive 19,500 shares of Libbey-Owens-Ford Glass Company common stock in exchange for its present holding of 6,500 shares of Plaskon Company, Incorporated, common stock, carried at a cost of $6,500.

Fixed Assets

Changes in fixed assets in the year 1942 are summarized below:

	1942	1941	Increase or *Decrease*
Land	$ 756,270	$ 743,316	$ 12,954
Buildings	12,618,173	11,835,063	783,110
Machinery, equipment, furniture and fixtures, etc.	21,737,164	20,230,384	1,506,780
Construction in progress	717,649	1,036,703	*319,054*
Total	$35,829,256	$33,845,466	$ 1,983,790
Less: Reserve for Depreciation	15,056,492	15,934,488	*877,996*
	$20,772,764	$17,910,978	$ 2,861,786

The increase of $1,983,790 in fixed assets during the year resulted as follows:

Balance December 31, 1941 per Annual Report	$33,845,466
Adjustment to bring property and equipment accounts, generally, into conformity with the tax basis	220,873
	$34,066,339
Additions in year 1942 at cost	1,883,295
Total	$35,949,634
Less retirements or sales	120,378
Balance December 31, 1942	$35,829,256

Changes and adjustments in the reserve for depreciation as of December 31, 1941 and during the year 1942 are shown below:

Balance December 31, 1941 per Annual Report	$15,934,488
Less—Adjustment to reflect, generally, rates allowed for tax purposes	2,457,135
	$13,477,353
Depreciation for year 1942 charged to Profit and Loss	1,655,167
Total	$15,132,520
Less: Depreciation applicable to retirements or sales	76,028
Balance December 31, 1942	$15,056,492

Investment In I. G. Chemie

Since shortly after its organization the Company has had a substantial investment in Internationale Gesellschaft fuer Chemische Unternehmungen A. G., Basle, Switzerland (I. G. Chemie). This investment consists of 56,300 shares of fully paid and 28,600 shares of 50% paid common stock which together constitute 36.2% of the paid-in common stock capital of that company as disclosed in its annual report for the year 1940, which is the most recent report available. This report stated that the principal investment of I. G. Chemie was in General Aniline & Film Corporation. Such investment is claimed by I. G. Chemie to have comprised 455,624 shares Common A Stock and 2,050,000 shares Common B Stock, all of which has now been vested by the Alien Property Custodian. The report also showed that total gross income of I. G. Chemie in 1940 was $1,917,142 (converted from Swiss francs at the official rate of exchange). The dividends paid by General Aniline & Film Corporation in 1940 on its capital stock claimed to have been owned by I. G. Chemie amounted to $1,516,958 net of the withholding tax. The management of the Company has insufficient knowledge of the remaining assets of I. G. Chemie to determine what value, if any, should be ascribed to its investment in that company. The management is informed, however, that an inactive market in the stocks of I. G. Chemie exists on the Zurich Stock Exchange and that on December 31, 1942 the fully paid shares were quoted at 280 Swiss francs and the 50% paid shares at 80 Swiss francs, equivalent at the official rate of exchange to a quoted market value of $4,191,674 for the Company's investment in that company.

Until December 31, 1940, the Company followed the practice of adjusting its investment in I. G. Chemie at the close of each year to the lower of cost or quoted market value and by December 31, 1940 had written down the original cost of $14,958,516 to $9,255,530 by charges to earned surplus. The balance unpaid at December 31, 1940 on the 50% paid common stock, payable in Swiss francs, amounted to $1,660,230 based on the current rate of exchange as of that date. Owing to war conditions, market quotations available since December 31, 1940 have been considered by the management to be of doubtful significance. In view of the foregoing and the absence of recent information as to the assets and liabilities of I. G. Chemie, the value, if any, which should be attributed to the investment is, as previously mentioned, not now determinable. As a result, no adjustment of either the investment or liability accounts has been made since December 31, 1940. However, pending determination of such value, the Company has appropriated and set apart earned surplus in an amount equivalent to the net carrying value of the investment.

Ownership of Capital Stock

On February 16, 1942, the Secretary of the Treasury of the United States vested 459,448 shares of the Common A Stock and all of the outstanding Common B Stock of the Company. The stock so vested by the Secretary of the Treasury was on April 24, 1942, transferred to the Alien Property Custodian, who subsequently vested additional Common A shares. As a result, the Alien Property Custodian now has vested 477,389 shares out of the 527,671.65 outstanding shares of the Common A Stock and all of the outstanding Common B Stock.

THE COMPANY'S ARRANGEMENTS FOR THE SALE OF ITS DYESTUFFS

The Company's arrangements for the sale of its dyestuffs has not heretofore been explained to the stockholders.

Since 1927 neither the Company nor its predecessor has maintained its own sales organization for the distribution of dyestuffs, but has sold these products exclusively through a separate company called General Dyestuff Corporation. In that year, pursuant to a contract made in 1925 between the predecessors of General Aniline & Film Corporation and of I. G. Farbenindustrie Aktiengesellschaft, the Company's predecessor agreed that it would, during the corporate existence of General Dyestuff Corporation, sell to the latter exclusively such of the dyestuffs manufactured by the Company's predecessor as General Dyestuff Corporation might order. The latter company, in turn, agreed to buy its requirements of domestic dyestuffs (at least $5,000 per year) from the Company's predecessor providing such dyestuffs are manufactured by the predecessor. In 1928 an arrangement was substituted by which the Company's predecessor was to consign the dyestuffs manufactured by it to General Dyestuff Corporation exclusively. No period of duration for the new arrangement was specified. In 1939 the rights and obligations of the predecessor company were transferred to the Company upon merger of the two companies in that year.

Although General Dyestuff Corporation was, as stated above, a separate corporation, a community of interest existed between it and this Company, or its predecessor, until the year 1939. From 1925 until 1939 many of the principal officers of General Aniline & Film Corporation, or its predecessor, were directors, officers or principal stockholders of General Dyestuff Corporation. In 1925 the stockholders of General Dyestuff Corporation granted to I. G. Farbenindustrie options to purchase their stock at any time at par. The beneficiary of these options was changed from time to time, the last known being Chemnyco, Inc., a company dominated by I. G. Farben. Chemnyco, Inc.'s right to exercise the options is said to have been terminated in the summer of 1939.

Thus at the end of 1939 the foregoing community of interest between General Aniline & Film Corporation and General Dyestuff Corporation ceased to exist, except insofar as it resulted from the continuing relation of manufacturer and sales agent. On June 30, 1942 the Alien Property Custodian vested all the stock of General Dyestuff Corporation and since that time the latter has been operated under his direction.

ANTI-TRUST INDICTMENTS

The Company and certain of its former officers and directors are under indictment in four cases charging them with violations of the Anti-Trust laws. Three of these indictments were returned before the installation of the present management of the Company and the fourth was returned on May 14, 1942. The present management is in no way involved in the offenses charged in the indictments.

EMPLOYEE RELATIONS

Despite the numerous changes required in the staff of the Company during the difficult period of 1942, the harmonious relationship between management and employees, which has existed for many years, continued throughout the year. The Group Life Insurance Plan, supported by joint contributions of the Company and employees provides an average death benefit of approximately twice the annual salary of the employee. The Group Annuity Plan, available to employees receiving $3,000 or more annually, provides an annuity approximating 1½% of their annual salary for each year of service. The cost of the Plan is shared by the Company and the employees participating in it.

Prior to the stabilization of wages and salaries, wage rates were increased at all plants.

In his capacity as Custodian of Common A and Common B stock, representing more than 97% of the voting power, the Hon. Leo T. Crowley, with the assistance of the Hon. James E. Markham, Deputy Alien Property Custodian, and the members of the Custodian's staff, has given sympathetic and careful attention to the affairs of the Company and has thus contributed materially to the solution of the problems encountered by the Management.

By ORDER OF THE BOARD OF DIRECTORS,

ROBERT E. McCONNELL,
President.

New York, N. Y.
March 24, 1943

Letter of the Secretary of the Treasury referred to on page 1 of this report.

April 7, 1942

Dear Mr. McConnell:

On March 6, 1942, I discussed with you the operation of the affairs of General Aniline and Film Corporation. I pointed out that the Treasury Department would not try to run an industrial company, but wanted to be sure that the affairs of General Aniline were in the hands of competent men of both technical training and business experience capable of operating the affairs of the company in a business-like manner.

At that time I indicated my desire that those chosen to manage the affairs of the company take into account at all times the fact that (1) the United States is at war; (2) that it is the intention and desire of the Government as the company's principal stockholder, and presumably of all other stockholders, that the activities and facilities of the company are to be applied to the fullest extent to the war effort.

You agreed to suggest without delay a Board of Directors of not more than four who in your judgment would be well qualified to conduct the affairs of the company along these lines.

* * * * *

Now that the new Board of Directors, composed of yourself, Mr. Moffett, Dr. Wilson and Mr. Marshall, has been elected, and you have been selected by them as Chairman of the Board and President, I wish to confirm officially to you and your Board the substance of my earlier discussions with you, as outlined above. I might also repeat what I have said before to the effect that the new Board of Managing Directors is to have complete authority and control of the selection of competent Americans to restaff the company, and that the company, both during and after its Americanization, is to be run in all ways in accordance with sound American business methods.

I might say to you that this letter has the approval of Mr. Leo Crowley, Alien Property Custodian.

Sincerely yours,

/s/ H. MORGENTHAU, JR.
Secretary of the Treasury.

Mr. R. E. McConnell,
President,
General Aniline & Film Corp.,
230 Park Avenue,
New York, New York.

ASSETS

Current Assets:		
Cash on hand and demand deposits		$ 5,664,611.99
U. S. Treasury Bonds (at the lower of cost or market)		324,528.75
Receivables—		
General Dyestuff Corporation (Note 9)	$ 1,721,331.19	
U. S. Government departments and agencies	1,825,029.99	
Other customers	1,551,768.69	
Miscellaneous	134,439.83	
	$ 5,232,569.70	
Less—Reserve for doubtful receivables	191,245.70	5,041,324.00
Inventories (including $1,749,093.09 on consignment with General Dyestuff Corporation), priced at the lower of average estimated cost or market (Note 1)—		
Finished goods	$ 7,294,612.00	
Goods in process	6,637,906.02	
Raw materials	4,395,336.98	
Supplies, containers and goods in transit	741,952.58	19,069,807.58
Total current assets		$30,100,272.32
Investments (Page 16):		
Marketable securities, at the lower of cost or market (quoted market value, $3,085,354.62) (Note 2)	$ 2,369,596.43	
Securities deposited with State of New York under Workmen's Compensation Act, at the lower of cost or market (quoted market value, $100,075.00)	93,101.30	
Sundry investments, at cost (Note 3)	1,575,509.38	
Investment in and advances to Canadian subsidiary, not consolidated (underlying book value in terms of U. S. dollars, $336,695.13)	251,155.86	4,289,362.97
Investment in Common Stock of Internationale Gesellschaft fuer Chemische Unternehmungen A. G., Basle, Switzerland (Note 4)	$ 9,255,530.00	
Less—Deferred uncalled for balance on 50% paid stock	1,660,230.00	7,595,300.00
Fixed Assets, at cost (Note 5):		
Land	$ 756,269.43	
Buildings	12,618,173.45	
Machinery and equipment, etc.	22,454,812.88	
	$35,829,255.76	
Less—Reserves for depreciation	15,056,492.22	20,772,763.54
Patents, Trademarks and Formulae		1.00
Prepaid Expenses and Deferred Charges:		
Prepaid insurance and taxes	$ 415,070.68	
Unamortized debenture discount and expense (Note 6)	489,560.69	
Other	254,948.31	1,159,579.68
		$63,917,279.51

Reference is made to the accompanying notes which

PORATION AND SUBSIDIARY COMPANIES

Sheet—December 31, 1942

LIABILITIES

CURRENT LIABILITIES:			
Accounts payable—			
Trade			$ 1,063,402.18
Other			138,203.95
Taxes withheld at source			155,348.17
Accrued salaries, wages and commissions			194,502.73
Accrued interest on debentures			153,541.71
Accrued taxes (other than Federal income and excess profits taxes)			253,184.93
Other accrued liabilities			30,484.09
Provision for Federal income and excess profits taxes, subject to review by U. S. Treasury Department		$ 5,834,102.68	
Less—U. S. Treasury Notes, Tax Series B (including accrued interest thereon)		3,376,128.00	2,457,974.68
Employees' defense bond purchase account		$ 90,120.31	
Less—Cash on deposit for purchase of bonds		90,120.31	—
Total current liabilities			$ 4,446,642.44
GUARANTEED 5½% DEBENTURES, DUE MAY 1, 1949 (guaranteed as to principal and interest by I. G. Farbenindustrie Aktiengesellschaft)			16,750,000.00
RESERVES:			
Contingencies		$ 1,000,000.00	
Workmen's compensation, self-insurance		279,701.72	
Other		36,568.27	1,316,269.99
CONTINGENT LIABILITIES (Note 7)			
CAPITAL STOCK AND SURPLUS (Note 8):			
Capital Stock—			
Common A stock of no par value, stated at $25.00 per share, authorized 3,000,000 shares, issued 529,701 shares		$13,242,525.00	
Common B stock of $1.00 par value, authorized and issued, 3,000,000 shares		3,000,000.00	
		$16,242,525.00	
Capital surplus (no change during year)		12,902,432.08	
Earned surplus, per accompanying statement—			
Appropriated pending determination of value of investment in Internationale Gesellschaft fuer Chemische Unternehmungen A. G., Basle, Switzerland (Note 4)		7,595,300.00	
Unappropriated (Note 10)		5,729,149.63	
		$42,469,406.71	
Deduct—Stock held in treasury—			
2,029.35 shares of Common A stock, at cost	$115,039.63		
950,000 shares of Common B stock, at par value of $1.00 per share (cost, $1,900,000)	950,000.00	1,065,039.63	41,404,367.08
			$63,917,279.51

an integral part of the above consolidated balance sheet.

G291264

G-I_EPA0018734

GENERAL ANILINE & FILM CORPORATION
AND SUBSIDIARY COMPANIES

Statement of Consolidated Profit and Loss
For the Year Ended December 31, 1942

NET SALES (Note 9)		$43,240,715.01
COST OF SALES (Note 5)		25,566,971.96
Gross profit on sales		$17,673,743.05
DEDUCT:		
Commissions to General Dyestuff Corporation, sales agent for dyestuffs (Note 9)	$ 3,283,316.04	
Other selling and general and administrative expenses	5,325,724.11	8,609,040.15
Net profit from operations		$ 9,064,702.90
OTHER INCOME:		
Dividends and interest from domestic securities	$ 690,015.29	
Royalties	83,594.64	
Profit on sale of securities	411,870.99	
Discount on purchases	127,576.03	
Other	38,890.56	1,351,947.51
		$10,416,650.41
OTHER DEDUCTIONS:		
Interest on debentures	$ 984,270.83	
Amortization of debenture discount and expense	119,602.00	
Premium paid on debentures retired	47,628.63	
Other interest	18,637.57	
Discount on sales	283,623.16	
Other	44,887.73	1,498,649.92
Net profit before provision for Federal income and excess profits taxes		$ 8,918,000.49
PROVISION FOR FEDERAL INCOME AND EXCESS PROFITS TAXES:		
Income tax and surtax	$ 1,252,233.72	
Excess profits tax (post-war credit of approximately $464,700 availed of currently for debt retirement)	4,182,300.00	5,434,533.72
Net profit (Note 10)		$ 3,483,466.77

Provisions for depreciation charged to costs and expenses during the year amounted to $1,655,167.02.

Reference is made to the accompanying notes which are an integral part of the above statement.

GENERAL ANILINE & FILM CORPORATION
AND SUBSIDIARY COMPANIES

Statement of Consolidated Earned Surplus
For the Year Ended December 31, 1942

Balance, December 31, 1941		$ 6,891,596.61
Adjustments as of January 1, 1942 and March 31, 1942:		
Adjustment of fixed assets and reserves for depreciation to conform, generally, with the tax basis of such assets (including $20,290.87, representing restoration of leasehold improvements written off in prior years) (Note 5)	$2,698,298.25	
Restoration of unamortized discount and expense applicable to the Guaranteed 5½% Debentures (Note 6)	609,162.69	
	$3,307,460.94	
Less—Adjustment of marketable securities to quoted market value at March 31, 1942 (Note 2)	358,074.69	2,949,386.25
		$ 9,840,982.86
Net profit for the year ended December 31, 1942		3,483,466.77
Balance, December 31, 1942 (Note 10)		$13,324,449.63
Appropriated pending determination of value of Internationale Gesellschaft fuer Chemische Unternehmungen A. G., Basle, Switzerland (Note 4)		$ 7,595,300.00
Unappropriated		5,729,149.63
		$13,324,449.63

Reference is made to the accompanying notes which are an integral part of the above statement.

GENERAL ANILINE & FILM CORPORATION
AND SUBSIDIARY COMPANIES

Investments, December 31, 1942

(Exclusive of investment in Common Stock of Internationale Gesellschaft fuer Chemische Unternehmungen A.G., Basle, Switzerland — see Note 4)

Particulars	Shares or Units	Amount
Marketable securities, at the lower of cost or market (quoted market value, $3,085,354.62):		
E. I. du Pont de Nemours & Co., common stock	5,400	$ 579,150.00
Standard Oil Company (N. J.), common stock	53	1,573.93
Standard Oil Company of California, common stock	10,000	188,750.00
Standard Oil Company (Indiana), common stock	5,900	124,637.50
Sterling Drug, Inc., common stock	30,580	1,475,485.00
Total		$2,369,596.43
Securities deposited with State of New York under Workmen's Compensation Act, at the lower of cost or market (quoted market value, $100,075.00):		
New York City Serial Bonds, 4%, due May 1, 1959	$10,000.00	$ 10,285.67
New York City Corporate Stock, 4%, due May 1, 1959	5,000.00	5,400.00
New York City Corporate Stock, 4¼%, due Jan. 1, 1977	15,000.00	15,900.00
New York City Corporate Stock, 4¼%, due Nov. 15, 1978	10,000.00	10,900.00
New York State Bonds, 1¾%, due April 19, 1944	40,000.00	40,300.00
U. S. Treasury Bonds, 2%, due Dec. 15, 1947	10,000.00	10,315.63
Total		$ 93,101.30
Sundry investments, at cost (Note 3):		
Plaskon Company, Incorporated, $6.00 cumulative preferred stock	4,000	$ 312,500.00
Plaskon Company, Incorporated, 4% cumulative preferred stock	1,230	112,500.00
Plaskon Company, Incorporated, common stock	6,500	6,500.00
Winthrop Chemical Company, common B stock	6,150	1,144,009.38
Total		$1,575,509.38
Investment in and advances to Canadian subsidiary, not consolidated (underlying book value in terms of U. S. dollars, $336,695.13):		
Agfa Ansco Limited, capital stock	670	$ 67,000.00
Advances to Agfa Ansco Limited		184,155.86
Total		$ 251,155.86

GENERAL ANILINE & FILM CORPORATION
AND SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements
For the Year Ended December 31, 1942

1. The Company is now manufacturing dyestuffs used indirectly for military and other Government purposes and, in connection therewith, the related inventories have been increased to enable prompt compliance with Government demands. Sales of such products are made through the regular trade channels and the Company is not protected by forward contracts which would cover possible excessive inventories on hand when the military demand ceases. Approximately $750,000 of the inventories at December 31, 1942 represent finished dyestuffs and work in process which are currently active but in which, on the basis of pre-war experience, little movement may be expected after termination of the war demand.

   As a result of restrictions during 1942 on the consumption of dyestuffs for civilian needs, the Company at December 31, 1942 had relatively large stocks of civilian dyestuffs and materials used in their manufacture. The amount of inventories in excess of estimated requirements for one year was approximately $2,000,000, of which approximately $700,000 represented items in which little or no movement may be expected until resumption of normal civilian demand. In the opinion of the management there will be no deterioration in these inventories before final disposition thereof.

   As in prior years, inventories have been priced at the lower of average estimated cost or market. In the dye works division, the Company has for some time used a process cost system under which raw materials are included on the basis of actual cost, and actual labor and overhead expenses are apportioned over the products of each department on the basis of theoretical operating expenses estimated by the Company's chemists. The accuracy of this allocation of labor and overhead to individual products is dependent upon the accuracy of such theoretical expenses, many of which have been arbitrarily estimated. The Company is now engaged in a study of its cost accounting for the purpose of obtaining more accurate distribution of labor and overhead. Based upon comprehensive comparisons of unit costs with current net selling prices, the management is satisfied that the inventories at December 31, 1942 are reasonably stated.

2. In prior years and up to March 31, 1942, the Company followed the practice of adjusting marketable securities to the lower of original cost or quoted market price by charges or credits to earned surplus. Credits arose from restoration of previous write-downs upon recovery in market prices to the extent of original cost. In accordance with this established practice the securities owned at March 31, 1942 were written down to market by a charge of $358,074.69 to earned surplus. Following the change in management in March, 1942 the Company, as of April 1, 1942, adopted the policy of effecting any future downward adjustments to market by charges to profit and loss instead of to earned surplus, and discontinuing the restoration of previous write-downs.

3. Sundry investments, representing investments in Winthrop Chemical Company and Plaskon Company, Incorporated, have no quoted market prices and are carried at cost of $1,575,509.38. The following tabulation shows a comparison of cost with the equity in

the underlying net assets as shown by the financial statements of the companies at December 31, 1942, and a comparison of the Company's equity in the net profit for 1942 with the amount of dividends received:

Particulars	Winthrop Chemical Company	Plaskon Company, Incorporated
Cost of investment	$1,144,009.38	$431,500.00
Equity in underlying net assets at December 31, 1942	2,739,656.57	648,429.67
Equity in net profit for the year 1942	$ 663,180.31	$ 99,275.32
Amount of dividends received	500,000.00	28,920.00

4. The Company owns 56,300 shares of fully paid and 28,600 shares of 50% paid common stock of Internationale Gesellschaft fuer Chemische Unternehmungen A. G., Basle, Switzerland (I. G. Chemie). Until December 31, 1940, the Company followed the practice of adjusting its investment in I. G. Chemie at the close of each year to the lower of cost or quoted market value and by December 31, 1940 had written down the original cost of $14,958,516.13 to $9,255,530.00 by charges to earned surplus. The balance unpaid at December 31, 1940 on the 50% paid common stock, payable in Swiss francs, amounted to $1,660,230 based on the current rate of exchange as of that date. Owing to war conditions, Swiss market quotations available since December 31, 1940 have been considered by the management to be of doubtful significance. In view of the foregoing and the absence of recent information as to the assets and liabilities of I. G. Chemie, the value, if any, which should be attributed to the investment is not now determinable. As a result, no adjustment of either the investment or liability accounts has been made since December 31, 1940. However, pending determination of such value, the Company, pursuant to authorization of the Board of Directors, has appropriated and set apart earned surplus in an amount equivalent to the net carrying value of the investment.

5. Pursuant to authorization of the Board of Directors, the companies as of January 1, 1942 adopted the rates used in determining the amount of depreciation deductible for Federal income tax purposes, and adjusted the fixed asset accounts and related reserves for depreciation to conform, generally, with the tax basis of such assets. The adjustments, including restoration of leasehold improvements previously written off in the amount of $20,290.87, resulted in a credit of $2,698,298.25 to earned surplus. As a result of the change in rates, the provisions for depreciation in 1942 were approximately $336,000 less than the provisions would have been had the companies used the rates in effect in 1941.

6. Unamortized discount and expense applicable to the Guaranteed 5½% Debentures, due May 1, 1949, was written off in prior years by a charge to earned surplus. As of January 1, 1942, the Company, by a credit of $609,162.69 to earned surplus, restored the portion thereof applicable to the debentures outstanding at that date. Amortization for the year 1942, plus the unamortized amount applicable to debentures retired during the year, amounted to $119,602.00.

7. At December 31, 1942 there were certain civil lawsuits and claims pending against the companies which, in the opinion of the management, are immaterial in relation to the total assets or operations of the companies. In addition, the Company has been named defendant in four indictments for alleged violation of the Anti-Trust Laws.

8. The Certificate of Incorporation of the Company, as amended, provides that in the case of liquidation or dissolution of the Company, holders of Common A Stock shall first receive

not in excess of $75.00 per share of the assets available for distribution and thereafter shall participate in any remaining assets, share for share, with holders of the Common B Stock. The aggregate of the preference on liquidation or dissolution in respect of the 527,671.65 shares of Common A Stock outstanding is $26,383,582.50 in excess of the aggregate stated value of such stock. In the opinion of counsel for the Company there are no restrictions upon surplus growing out of the fact that the amount to which the holders of the Common A Stock are entitled in liquidation exceeds the stated value thereof.

The Certificate of Incorporation also provides that "for each one dollar ($1.00) or fraction thereof, of dividends, declared and paid on each share of Common A Stock, dividends of ten (10) cents, or fraction thereof, shall be declared and paid on each share of Common B Stock, and no dividend shall be declared and paid on either Common A or Common B Stock, unless at the same time dividends as herein provided are declared and paid on both Common A and Common B Stock".

On February 16, 1942, the Secretary of the Treasury of the United States vested 459,448 shares of the Common A Stock and all of the outstanding Common B Stock of the Company. The stock so vested by the Secretary of the Treasury was on April 24, 1942, transferred to the Alien Property Custodian, who subsequently vested additional Common A shares. As a result, the Alien Property Custodian has vested 477,389 shares out of the 527,671.65 outstanding shares of the Common A Stock and all of the outstanding Common B Stock.

9. Since 1927 the dyestuffs manufactured by the Company have been sold exclusively by General Dyestuff Corporation. In that year, the Company's predecessor agreed that it would, during the corporate existence of General Dyestuff Corporation, sell to the latter exclusively such of the dyestuffs manufactured by the Company's predecessor as General Dyestuff Corporation might order. The latter company, in turn, agreed to buy its requirements of domestic dyestuffs (at least $5,000 per year) from the Company's predecessor providing such dyestuffs are manufactured by the predecessor. In 1928 an arrangement was substituted by which the Company's predecessor was to consign the dyestuffs manufactured by it to General Dyestuff Corporation exclusively. No period of duration for the new arrangement was specified. The rights and obligations of the predecessor company were transferred to General Aniline & Film Corporation upon merger of the two companies in 1939. All of the capital stock of General Dyestuff Corporation was vested by the Alien Property Custodian on June 30, 1942.

10. Under the renegotiation provisions of the Sixth Supplemental National Defense Appropriation Act, as amended, the Price Adjustment Board of the War Department has requested certain financial information with a view toward renegotiation of Government contracts and subcontracts. The effect, if any, of such renegotiation upon the financial statements of the Company for the year ended December 31, 1942 cannot be determined at this time. Consequently, no provision therefor has been made.

11. The accompanying consolidated financial statements do not include the accounts of a wholly owned Canadian subsidiary, the net assets and operations of which are relatively insignificant.

ARTHUR ANDERSEN & CO.

AUDITORS' REPORT

To the Board of Directors,
General Aniline & Film Corporation:

We have examined the consolidated balance sheet of General Aniline & Film Corporation (a Delaware corporation) and subsidiary companies as of December 31, 1942, and the statements of consolidated profit and loss and earned surplus for the year then ended, have reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary, except that we were unable to obtain confirmations on certain receivables from Government departments and agencies. In lieu of such confirmations, we traced subsequent receipts on a substantial portion of such receivables into the cash records of the Company.

As indicated in Note 5 to the consolidated financial statements, the companies, as of January 1, 1942, adopted the rates used in determining the amount of depreciation deductible for Federal income tax purposes, and adjusted the fixed asset accounts and related reserves for depreciation by a credit of $2,698,298.25 to earned surplus to conform, generally, with the tax basis of such assets. As a result of the change in rates, the provisions for depreciation in 1942 were approximately $336,000 less than the provisions would have been had the companies used the rates in effect in 1941. The Company also changed the basis for carrying marketable securities and reinstated the unamortized debenture discount and expense as described in Notes 2 and 6, respectively. Except for the foregoing changes, which we approve, the accounting principles followed by the companies in 1942 were applied on a basis consistent with that of the preceding year.

Under the renegotiation provisions of the National Defense Act, as amended, the Price Adjustment Board of the War Department has requested certain financial information with a view toward renegotiation of Government contracts and subcontracts. The effect, if any, of such renegotiation upon the financial statements of the companies for the year ended December 31, 1942 cannot be determined at this time. Consequently, no provision therefor has been made.

The investment in Internationale Gesellschaft fuer Chemische Unternehmungen A. G., Basle, Switzerland is carried at quoted market value as of December 31, 1940 (see Note 4). Owing to war conditions, Swiss market quotations available since December 31, 1940 have been considered by the management to be of doubtful significance. In the absence of such quotations or of recent information as to the assets and liabilities of the Swiss Company, the value, if any, which should be attributed to the investment is not now determinable. Pending determination of such value, the Company, pursuant to authorization of the Board of Directors, has appropriated and set apart earned surplus in an amount equivalent to the net carrying value of the investment.

In our opinion, except for the effect of possible adjustments in connection with (a) renegotiation of Government contracts and subcontracts and (b) the investment referred to in the preceding paragraph about which we are unable to express an opinion, the accompanying consolidated balance sheet and related statements of consolidated profit and loss and earned surplus present fairly the consolidated position of the companies at December 31, 1942, and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN & CO.

New York, N. Y.
March 24, 1943